Altachem Pharma Ltd.

Annual Report 2003

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Corporate Profile

Altachem Pharma Ltd. is a publicly traded (AAF:TSX Venture Exchange), Alberta-based pharmaceutical company committed to the development and commercialization of new pharmaceutical products to enrich and prolong the lives of people. The Corporation is developing a multi-tiered, integrated approach for the treatment of HIV/AIDS and cancer using non-toxic therapeutic products and adjunct therapies. The lead products of the Corporation are based on its three proprietary drugs: ACP-HIP, HB (SonoLight Technology) and CDK. The Corporation's manufacturing facilities located in Edmonton, Alberta, Canada and Shanghai, China are certified compliant with internationally recognized quality system standards.

Corporate Highlights

for the Year ended January 31, 2003

February 2002

- Altachem Pharma completes a $10,000,000 Private Placement.

March 2002

- Altachem Pharma announces the acquisition of a novel immunomodulator to be used alone or with the Company's hypocrellin-based products.
- Altachem announces the presentation of its experimental cancer treatment using ultrasound-activated hypocrellins at the 3rd Annual Symposium of Sonodynamic Therapy in Japan.

April 2002

- Altachem Pharma establishes a drug development lab and attracts GMP manufacturing and formulation experts.
- Results of ACP-HIP pre-clinical studies are presented to the Canadian Health Protection Branch in Ottawa, Ontario.

May 2002

- Altachem's proposed joint venture with Erdos Cashmere Group advances toward regulatory approval by the Chinese Government Regulatory Authority.

June 2002

- Altachem Pharma announces intent to purchase 75% equity towards 100% ownership of Hua Gao Pharmaceutical Pellet Core Co., located in Shanghai, China.
- Beijing Erdos Altachem Pharma Ltd. joint venture receives all necessary regulatory approvals for establishment in the Peoples' Republic of China.
- Altachem Pharma announces the addition of Douglas Bachman, Executive Vice President of Corporate Development, to the senior management team.

November 2002

- Altachem Pharma demonstrates its continued commitment to increasing shareholder value and retains Renmark Financial Communications as its investor relations service company.

December 2002

- Altachem Pharma obtains "No Objection Letter" from Health Canada to begin human clinical trials on ACP-HIP.
- Altachem Pharma announces the addition of Dr. Shou-bai Tang, to the scientific team.

Corporate Goals and Objectives

2002 Goals & Objectives	2002 Achievements	2003 Goals & Objectives
Advance ACP-HIP into human clinical trials.	• "No Objection" letter received from Health Canada • Contracted Global IQ Medical Research Inc. as clinical research organization for Phase I clinical trial • Obtained a principal investigator for Phase I clinical trial • Obtained clinical trial site for Phase I clinical trial	• Advance Phase I human clinical trials
Increase revenues at the manufacturing facility in Edmonton, Alberta, Canada.	We did not achieve our primary objective in 2002. However, we successfully met other related objectives, including: • Expanded customer base for Accu-MAb™ from 53 to 65 • Improved the manufacturing process of Accu-MAb™	• Continue to look for opportunities for contract manufacturing to optimize the facility • Update the current quality systems in place to the new internationally recognized standard ISO 9001:2000 • Maximize Accu-MAb™ sales first in Canada and second in North America
Continue to advance SonoLight technology and CDK technology for cancer therapy.	**SonoLight – Topical** • Optimized active ingredient	• Submit Clinical Trial Application (CTA) to Health Canada and initiate Phase I clinical trials
	SonoLight – Systemic • Two lead compounds identified • US Patent Application allowed for cancer treatment	• Complete all pre-clinical studies • Prepare Clinical Trial Application (CTA) to Health Canada to move into Phase I clinical trials • Establish a scientific team to target clinical trials
	CDK • Synthesized a panel of drug candidates for pre-clinical evaluation	• Complete all pre-clinical studies
Finalize the Joint Venture with the Erdos Group for the development of the Bionex™ technology.	• Received all necessary government approval to form the Joint Venture	• Convert joint venture to a wholly owned foreign enterprise • Prove Bionex™ as a chemical sterilant and various levels of disinfectant • Advance Bionex™ manufacturing, sales and distribution for use as a chemical sterilant and various other levels of disinfectant • Identify an international distributor for North America and Saudi Arabia • Manufacture products in China and export internationally • Advance the technology for use with safety gloves to prevent contamination • Advance the technology for potential use in inactivating pathogens and contaminants in whole blood and blood products
Move the Shanghai Hua Gao Pharmaceutical Pellet Core Company (SHGP) from start-up phase to full production and sales	We did not achieve our primary objective in 2002. However, we successfully met other related objectives: • In August 2002, Altachem Pharma Ltd. purchased 100% of SHGP. SHGP is now a wholly owned subsidiary of Altachem Pharma Ltd.	• Improve production and sales • Expand manufacturing capabilities, potential collaboration between Shanghai Hua Gao Pharmaceutical Pellet Core Co. and Beijing Altachem Pharma Biotechnology Ltd. • Increase market exposure and target potential clients
Intensify and broaden corporate finance strategy and initiatives.	• Completed a non-brokered private placement for aggregate gross proceeds of $9,721,700 • Formed a 3-member corporate finance team consisting of a chief financial officer, a corporate controller and a divisional controller • Implemented a project-tracking system to ensure the efficient allocation of resources towards drug development • Enhanced depth of corporate reporting and governance	• Receive additional financing from the exercise of warrants issued as part of the private placement • Effectively use financing incentives offered by different provinces and countries

President's Message

Far and away the best prize that life offers is the chance to work hard at work worth doing.
— Theodore Roosevelt

Thanks to the commitment, dedication and yes, hard work of the Altachem Pharma team, and the support of our shareholders, this year we made great progress towards achieving many of our long-term goals to grow the Company and strengthen shareholder value, and ultimately, to improve the quality of life for those suffering from the devastating effects of cancer, AIDS and various diseases caught through the transfusion of unsafe blood and or blood products.

Each year of Altachem's history as a public company has seen significant growth, change and value creation, financially, operationally and organizationally. However, the road to robust, measurable progress while being cost effective is seldom uniformly smooth, and great strides in one area often accompany a slower than anticipated trajectory in another. Throughout every level of Altachem, one of our paramount corporate values is *accountability*, and that's why every year we set out tangible, measurable goals for the next, and then follow up with a report on our success or failure in meeting our targets.

Our financial results, detailed in our audited financial statements and Management Discussion and Analysis, reflect a continued strategy toward growth in a controlled manner, without undue risk to shareholders and other stakeholders. We believe in supporting the development of innovative, next-generation biopharmaceutical technologies which have the potential to treat and or prevent cancer, AIDS and various diseases caught through the transfusion of unsafe blood and or blood products, with revenue from our manufacturing division, with capital raised in the financial markets without undue share value erosion and without the burden of long-term debt. This past year, we successfully raised $10,000,000 through a private placement, and we finalized our purchase of 100% of Shanghai Hua Gao Pharmaceutical Pellet Core Co., a manufacturing company where we expect to generate increasing and consistent revenue from manufacturing high-demand product for the vast market in China, but more importantly, manufacturing on the economics of China for the export market.

Some of the very negative corporate events of 2001 and 2002 resulted in an urgent need for all public companies to assess their corporate governance and reporting practices and make improvements where necessary. While we have always been highly cognizant of the need for effective, progressive corporate governance and reporting, we took deliberate steps over the past year to keep updated and current on any changes to corporate governance and reporting practices so we are confident that Altachem is always meeting the moving target to enhance transparency and our accountability to our shareholders.

One of the most exciting events for Altachem Pharma in 2002 was our transition from the pre-clinical to clinical trial stage for ACP-HIP, one of our lead products in our mandate to treat and control the ravage of AIDS. ACP-HIP is a protein that has been found to inhibit the proliferation of AIDS-causing HIV cells as well as to inhibit the spread of Kaposi's Sarcoma, an AIDS-related cancer in laboratory research. Now, through the process of various human clinical trials, we will prove the effectiveness for treating these diseases. With our key AIDS-related technology, ACP-HIP quickly approaching Phase I clinical trials and our cancer technologies including the revolutionary blood treatment product, Bionex™, steadily progressing through the development phases, we are very excited to see the tremendous development momentum being gained throughout our overall technology platform. With the combination of revenue we anticipate to generate from our manufacturing division, equity financing, special incentives, business relations in several countries and fast track development and approvals where applicable, we feel Altachem is well positioned for focused development, thereby appreciably reducing time to market for specific applications for some of our technologies.

Financial results for the year depended on access to the capital markets to reflect the current growth phase of the Company, while maintaining no long-term debt and minimizing significant share dilution. We continue to recognize that work still needs to be done to ensure that our achievements are reflected in a stronger share price and ensuingly greater shareholder value. In acknowledging the role of various world events in contributing to a weaker share price, but also extremely positive for potential additional uses for one of our main technologies, we are nevertheless always taking major steps to increase our visibility in major financial markets.

Over the next year, our strategy is clear: to improve the revenue generated from our manufacturing and sales ventures in Canada and China. The latter in particular when recognizing the manufacturing economics, advancing our pre-clinical and clinical trial programs as quickly and cost-effectively as possible, so that we can achieve our most fundamental goal: to improve the quality of life on a global basis.

To our shareholders, everyone at Altachem Pharma thanks you for your support and shared belief in our values and goals, as your continued commitment and dedication is the driving force behind the growth and development of our business. To the Altachem Pharma team, Board of Directors and consultants, I thank you for supporting the Corporate vision, your loyalty and your hard work. As we look ahead together to a future full of opportunity, the time has never been better to move forward.

Warren Jackson
President and Chief Executive Officer

Report on Operations

Altachem Pharma is committed to building a solid foundation poised for sustainable growth for the long-term benefit of our shareholders, our employees, and the communities in which we live. We achieve this by identifying and developing new and improved pharmaceutical products to enhance the quality of life on a global scale.

Altachem Pharma carries out its operations through three distinct divisions, which invest in, manufacture, develop and distribute pharmaceutical products. We are committed to attracting and supporting the biotechnology sectors most innovative and accomplished researchers by providing a strong business model to support all research and development activities and a proven, performance-driven team of employees and consultants to execute the Company's corporate strategy. All of Altachem's operations are supported by the following key elements of our corporate strategy:

- Maximize growth by allocating resources across three complementary divisions; the revenue-generating strength of the Manufacturing Division provides sustainable cash flow to aid in supporting the growing Drug Development and Blood Safety Divisions designed for longer-term revenue streams;
- Reduce risk by acquiring products or technologies that are close to attaining, or have already attained, pre-clinical status;
- Participate in high-growth markets, focus on diseases with unmet treatment needs, market potential;
- Develop a proprietary and unique multi-tiered approach to the treatment of HIV / AIDS;
- Establish international presence in markets with unmet needs, focusing on China; and
- Apply justifiable manufacturing economics to all manufacturing operations.

Our philosophy to achieve success is simple: performance.
Each of our divisions has a distinct and solid business plan to achieve and measure results. We are confident that through the application of our business model we will continue to maintain current levels of strong shareholder support and continuously attract new investors.

To reduce risk and provide a sustainable financial platform to support the Company's research and development activities, Altachem's operations are divided into three independent business units:

Our philosophy to achieve success is simple: performance.

Assisted by revenue generated in the Manufacturing Division, Altachem is pursuing its vision to fill a largely unmet need to develop and market non-toxic therapeutic products and adjunctive therapies for the treatment of cancer and AIDS. Altachem's disease management programs for both cancer and AIDS comprise a proprietary core drug that kills either the cancer cell or HIV virus and another product that modulates the immune system. The latter can be used alone or in combination with the core product to evoke the maximum benefit.

Strategy:

Supporting all of the Company's activities, a solid strategic foundation is executed throughout all levels of operations. Over the last fiscal year, Altachem was able to achieve its operational goals and build sustainable shareholder value by:

- Focusing development resources on three core proprietary products which address an unmet market demand for the treatment of AIDS and cancer;
- Establish a proposed joint venture with a large, well-capitalized international partner to expedite the development of the Corporation's blood decontamination technologies;
- Build a strong Manufacturing Division to allocate a consistent flow of funds to potentially high-yielding development initiatives;
- Collaborate with academic institutions to expand the technology platform and reduce product from development to distribution times;
- Implementing efficient management of finances with no long-term debt, and a committed management team.

Product Development Update

Drug Development Division	Indication	Research And Development	Product Development	Pre-clinical Studies
ACP-HIP	HIV/AIDS			
Anticort™ (License for Canada)	HIV/AIDS			
SonoLight Technology - Injectible HB	Breast Cancer Prostate Cancer Gastro-Intestinal Cancer			
SonoLight Technology - Topical HB	Acne Psoriasis Actinic-Kertoses			
CDK Immunomodulator	Cancer			

Blood Safety	Indication	Research And Development	Product Development	Pre-clinical Studies
Bionex™ -Disinfectant	Bionex™ - Blood Safety			N/A
Bionex™ - Blood Safety	HIV/AIDS, Hepatitis, herpes and other viruses and bacterial contaminants			

Manufacturing Division	Product	
Shanghai Hua Gao Pharmaceutical Pellet Core Co.	Pellet Core	Currently SHGP is manufacturing pellet core product and the manufacturing capabilities through the possibility of a
Diagnostic Kits	Contract Manufacturing	Revenue: Three months ended January 31, 2003 = $71,883.
	Accu-MAb™ Kit	Revenue: Three months ended January 31, 2003 = $52,080.

Submit Clinical Trial Application	Approval to proceed with Clinical Trial	Clinical Trials			Drug Approval	Market Launch
		Phase 1	Phase 2	Phase 3		

Submit Clinical Trial Application	Approval to proceed with Clinical Trial	Clinical Trials			Drug Approval	Market Launch
		Phase 1	Phase 2	Phase 3		
N/A	N/A	N/A	N/A	N/A		

Current Status
generating sales. Throughout 2003, the management of SHGP will be working to improve production and sales of pellet core and expand collaboration between Shanghai Hua Gao Pharmaceutical Pellet Core Co. and Beijing Altachem Pharma Biotechnology Ltd.
Year-ended January 31, 2003 = $294,781
Year-ended January 31, 2003 = $136,140

Drug Development Division

Product	Indication	Summary
ACP-HIP	**HIV/AIDS**	ACP-HIP is a protein and has been found to inhibit the proliferation of AIDS-causing HIV cells as well as to inhibit the spread of Kaposi's Sarcoma (KS), an AIDS-related cancer. Results of pre-clinical studies and testing of ACP-HIP have led to the following conclusions: • ACP-HIP inhibits HIV cell growth • ACP-HIP induces KS cell death
Anticort™ (License for Canada)	**HIV/AIDS**	Procaine (HCL), the main ingredient in Anticort™, is believed to reduce blood cortisol levels. Cortisol, a hormone associated with stress, has been implicated as a contributing factor in AIDS. Procaine applications and safety are well established, as it is a commonly used anesthetic compound. However, using Procaine for anti-cortisol therapy is not possible as the compound breaks down within minutes of ingestion or injection and is therefore ineffective. Anticort™ is manufactured using special proprietary techniques to ensure that the intact, unbroken Procaine molecule is retained by the body for up to 36 hours. This gives the body the necessary time to benefit from the unique properties of the compound and controls high levels of cortisol production. Although Anticort™ will not cure AIDS, it can relieve symptoms associated with AIDS and can boost the immune function in AIDS patients. Consequently, this drug could be used either alone or with other drugs, including the Company's proprietary ACP-HIP product.
SonoLight Technology -Injectable HB	**Breast Cancer Prostate Cancer Gastro-Intestinal Cancer**	SonoLight's technology platform is based on a unique, non-toxic family of photosensitizing and sonosensitizing compounds. The active ingredient is a molecular-weight compound called HB, isolated from perylenequinone pigments from parasitic fungi on bamboo. The naturally occurring HB can be chemically modified for use in cancer treatment. HB has been demonstrated to specifically kill cancer cells and tumors upon activation by red, visible light (PDT) and/or ultrasound (SDT).
SonoLight Technology -Topical HB	**Acne Psoriasis Actinic-Kertoses**	SonoLight has formulated HB into topical gels. These gels penetrate skin and can potentially be used to treat various skin conditions such as acne, actinic keratosis, and psoriasis. HB gels target a large patient population and will face comparatively less stringent regulatory requirements than injectible HB compounds. As a result, these products are very attractive for rapid market entry.
CDK Immunomodulator	**Cancer**	It is currently thought that one of the origins of cancer is due to a lapse of the body's immune system to detect cancer cells as invaders of the host. The immunological approach to cancer therapy involves modification of the immune response to cancer cells, which can lead to tumor regression and rejection. The proprietary immunomodulator is to be used alone or in combination with the Hypocrellin-based product (HB). The Company believes that use of an immunomodulator in combination with the Hypocrellin-based product will not only reduce tumor growth, but also limit the spread of the cancer to distant organs. The product is in the late stages of pre-clinical work. The acquisition of this companion product strengthens our product portfolio and helps establish Altachem as a leader in the development of non-toxic cancer treatments.

The Drug Development Division is committed to developing technologies that have:

- Proven scientific credibility;
- Market protection by patents and proprietary information;
- A legitimate medical need and existing competitive technologies;
- A market opportunity and medical utility; and
- Justifiable manufacturing economics.

Competitive Advantage	Strategy	Market Opportunity
• ACP-HIP is developed from a natural source (fewer side effects) • Its unique mechanism of action results in minimal toxicity • No apparent resistance to the drug	Altachem expects to initiate a Phase I clinical trial in patients with KS in 2003.	There are an estimated 42 million people living with HIV or AIDS globally. AIDS is the fourth leading cause of death worldwide. In 2001, the HIV/AIDS global drug market totalled US $5 billion.
• Cost – one fifth of currently available drugs • Low cost would allow organizations such as the World Bank, World Health and the United Nations to assist in the treatment of AIDS in under-developed countries • Anticort's™ potential to improve the efficacy of other drugs – this adjuvant therapeutic approach is important due to the serious limitations on current AIDS therapies arising from drug and multi-drug resistance • Adjuvant therapeutic approach differentiates Altachem through a novel platform for treating AIDS • Altachem's platform is consistent with current scientific consensus on how to better treat AIDS	Altachem is awaiting the FDA-approved Phase 1b/2a clinical trial results from Samaritan Pharmaceuticals. Based on the results, the Company will initiate a pivotal clinical trial in Canada under the "fast-track" route for potential market approval within three years.	There are an estimated 42 million people living with HIV or AIDS globally. AIDS is now the fourth leading cause of death worldwide. In 2001, the HIV/AIDS global drug market totalled US $5 billion.
• HB derivative is the leading SDT compound used for the experimental treatment of cancer • Compared to existing PDT compounds, HB derivative has: - excellent red light and ultrasound activation - negligible toxicity - no genotoxicity - excellent tumor control • Compared to existing therapy, HB derivative does not require: - surgery - chemotherapy - radiation therapy	SonoLight has identified a lead compound that is suited for oncological applications because of its superior cancer-killing properties and rapid clearance from skin and serum. SonoLight will be simultaneously developing light and sound-activation systems. The fact that the same product can potentially be used in combination with light or sound, depending upon the disease, saves considerable pre-clinical development, regulatory and manufacturing expertise costs.	The worldwide markets for oncology applications total US $18 billion.
• Non-toxic • Absorbs into the skin readily	Submit Clinical Trial Application to Health Canada in 2003.	The worldwide markets for dermatology applications total US $6.7 billion across 7 major markets.
Multiple targeting system for tumor proliferation.	Initial pre-clinical evaluation of lead compound in 2003.	The worldwide markets for oncology applications total US $18 billion.

The role Altachem Pharma's technologies play in controlling AIDS and cancer

Cancer therapy:

a kinder and gentler approach

Cancer is the second leading cause of death in North America. Over one million new cases of cancer are estimated annually in the United States and one third of all North America's present population will eventually develop cancer. It is estimated that by 2010, the global cancer drug market will exceed US $56 billion. To meet the needs of this large and growing market, Altachem Pharma is focusing its efforts on developing an integrated approach to cancer treatment.

Our approach is expected to provide real promise to cancer patient's in the search for a gentler, kinder and non-toxic approach to controlling cancer. Conventional treatment such as chemotherapy and radiation are non-specific and can damage normal tissues. Altachem Pharma has developed two platform technologies for the treatment of cancer – Photodynamic and Sonodynamic therapies to minimize negative side-effects. Both technologies are minimally invasive and use a unique, photoactive drug called Hypocrellins, which transform light or ultrasound energy into chemical energy in a manner similar to the action of chlorophyll in green plants. When administered into the patient's body, the drug clears from the non-targeted tissues while being retained in cancer tissue. The drugs are inactive until exposed to light or ultrasound of a specific wavelength or frequency, respectively. Thus, exposing the cancer cells to the appropriate activation technology permits selective destruction of cancer cells.

PDT and SDT have two principle advantages over traditional therapies such as radiation or chemotherapy: dual selectivity and efficacy. Dual selectivity increases the accuracy of targeting the therapeutic benefits. Enhanced selectivity is first obtained by the preferential localization of the drug at the tumor site. Secondly, photo/sono-toxicity can be confined to cancer cells delivering the light or ultrasound to that discrete area. This treatment methodology is significantly more effective and less harmful to the patient's healthy cells. Efficacy is of particular relevance in radiation and chemotherapy. Therefore, the power of follow-up therapies is generally affected by prior therapies. The efficacy of PDT or SDT is not influenced by any prior treatment. In fact, they can by used in combination with any other treatment modalities or with patients who have not responded to radiation or chemotherapy and can't be accessed surgically. Furthermore, SDT seems to increase the potency of chemotherapy and PDT increases that of immunotherapy. In addition, the ability of the SDT-based products to address large tumor masses within the body will further expand the market potential.

AIDS:

the need for new treatment is more urgent than ever

According to the Joint United Nations Program on HIV/AIDS, approximately 980,000 people in North America are infected with HIV, the virus that causes AIDS. Since 1981, a staggering 25 million people worldwide have died from complications resulting for HIV/AIDS. At present, more than 42 million people worldwide are living with the virus. The lifetime discounted, direct medical cost of treating a person infected with HIV is estimated at $100,000. Spending on the treatment of HIV and AIDS in the United States is expected to exceed US $5 billion this year. No cure, or in most cases, no satisfactory long-term treatment, is currently available for persons suffering from this virus. Initial symptoms of HIV include night sweats, weight loss, malaise and fever. AIDS generally develops within two to eight years of being infected by HIV. As AIDS develops, the person's immune system is so compromised by the virus that he or she develops opportunistic infections, including Kaposi's sarcoma and other unusual forms of cancer. These opportunistic infections are caused by a bacterium, virus, parasite or fungus which could rarely cause an infection in a healthy person but which is ultimately fatal to most people with AIDS.

Current treatment for HIV infection targets two of the enzymes required by the virus to replicate: reverse transcriptase and proteases. The treatment normally involves combining two or more drugs to inhibit replication of the virus and delay the development of resistance to the therapy. Once the virus develops resistance to one combination of drugs, the patient switches to another combination. This approach is based on the hope that the virus will not become resistant to all drug combinations during the patient's life. These drugs come with heavy costs, the least of which is financial. Extremely destructive side effects have been associated with each, including kidney problems, liver damage, diarrhea, severe allergic reactions leading to open lesions on the body, hyperglycemia and more. A disturbing new study found that at least half of all Americans under care for HIV carry viruses that are resistant to some standard AIDS drugs.

It is obvious that there is a need for new drugs that have better side effect profiles, and involves as few pills as possible, that can be taken, ideally once a day. Above all, drugs that work in a completely different way than currently available drugs are required. Altachem Pharma is developing such a drug in ACP-HIP. Research so far indicates that ACP-HIP inhibits the growth of Kaposi's sarcoma cells and kills HIV through a mechanism different from that used by commercially available drugs. In addition, Altachem Pharma is also developing a drug called Anticort™ that can alleviate some of the symptoms, such as suppressed immune function, associated with AIDS. Anticort™ lowers the cortisol levels that are known to be associated with the suppression of the immune function in AIDS patients.

Blood Safety/Disinfectant Division

Beijing Altachem Pharma Biotechnology Ltd., (originally Beijing Erdos Altachem Pharma Ltd. joint venture) a wholly owned foreign company located in Beijing, China is committed to:

- Developing technologies that have a strong market demand both in China and internationally,
- Developing technologies that can be manufactured and distributed economically, and
- Developing technologies that can potentially qualify for fast track approval by Health Authorities and have relatively few competitors.

Focus Technology: Bionex™

During 2002, Altachem Pharma Ltd. licensed 100% of the world rights to develop, manufacture and sell Bionex™ to Beijing Altachem Pharma Biotechnology Ltd. in order to finance and expedite the development of the technology. Bionex™ is a revolutionary product with the potential to inactivate the HIV virus, hepatitis B and C, Herpes and other pathogens in blood compounds. This product may be the first to entirely eliminate the risk inherent in blood transfusions which is essential for a zero risk blood supply.

	Bionex™	
Indication	**Disinfectant** • Disinfectant Spray • Disinfectant Hand Cleanser • Disinfectant All Purpose Cleanser • Disinfectant for Rubber Gloves	**Blood Safety** • Cleanse biological fluids such as whole blood to ensure a zero risk blood supply • Applied to equipment and consumables in the blood donation / transfusion process to disinfect
Summary	Bionex™ is based on a technology discovered by Dr. Rene-Guy Busnel and Dr. Barbee Whitaker. A class of compounds have been developed by Dr. Busnel and Dr. Whitaker that destroys certain infectious bacteria and viruses by a unique mechanism. Dr. Busnel's earlier work has led to the use of these compounds in surgical gloves and condoms to prevent the spread of infectious diseases. The active ingredient in Bionex™ has been shown to kill various infectious contaminants such as viruses, including HIV, as well as bacteria and fungi. The Company believes that Bionex™ products will be effective in inactivating these pathogens in contaminated biological fluids such as whole blood, vomit, semen, urine and saliva.	
Competitive Advantage	The blood transfusion industry currently uses a multi-tiered system for assuring blood safety, which does not involve a compound or product. The blood transfusion industry must therefore rely on donor requirement techniques, donor screening, donor testing and inventory control techniques to assure overall safety. However, no process controls are available that assure zero risk. Bionex™ has already shown effectiveness against viral contaminants (e.g., HIV, hepatitis B, C and herpes) and against bacterial contaminants (e.g., E.coli). The Bionex™ products are expected to be effective in inactivating these pathogens in contaminated biological fluids such as whole blood. Altachem's proprietary compositions and methods have the potential to "clean" contaminated biological fluids in animals and humans. Altachem expects to have the first commercial product that assures a zero-risk blood supply.	
Strategy	Despite the highly publicized incidence of HIV infection caused by tainted blood products, there are at present no products available that ensure zero-risk blood transfusion. The market for donated blood and plasma in North America alone exceeds 23 million litres per year. The discovery of the Bionex™ technology has been described as the 'holy grail of blood banking,' and has the potential to eventually replace all existing techniques for processing blood and blood products.	
Market Opportunity	The market for blood safety products is over $10 billion and growing. With more than 77 million units of blood donated world-wide every year, the need for methods to improve the safety of blood products is truly vast. Currently, there are no products commercially available that assures zero-risk blood transfusion products.	

Manufacturing Division

The goals of the Manufacturing Division are to:

- Establish and build long-term contracts to increase profits over time, and
- Provide an immediate, stable revenue source to support corporate and drug product development.

Edmonton Manufacturing Facility

Altachem Pharma operates a manufacturing facility in Edmonton, Alberta, Canada. This facility is certified compliant with internationally recognized quality system standards ISO 9002:1994, ISO 13488 and EN 46002. The facility is also compliant with current Good Manufacturing Practices and is designed to meet a Class D designation as defined by Health Canada.

The Edmonton facility focuses on diagnostics and currently manufactures:

- Accu-MAb™, a whooping cough test kit; and
- A series of breath test kits, as per an exclusive agreement with Isodiagnostica Inc. This agreement expires in December, 2007.

Currently, Altachem Pharma Ltd. generates revenues from three sources: contract manufacturing, Accu-MAb™ sales and pellet core sales.

Accu-MAb™

Bordetella pertussis, or whooping cough, is a severe respiratory infection that can cause serious symptoms in young children. The Accu-MAb™ diagnostic kit is a device used in the identification and differentiation of Bordetella pertussis (whooping cough) and Bordetella parapertussis (a harmless bacteria). The product is classified as a medical device by Health Canada (HPB) and the Food and Drug Administration of the United States (FDA). Bordetella pertussis and parapertussis are reportable diseases in Canada and the US.

Product Overview

The Accu-MAb™ test kit is the only diagnostic kit on the market that can differentiate between Bordetella pertussis and Bordetella parapertussis, drastically reducing the number of false negatives.

Outlook

Altachem owns the world rights to manufacture and distribute Accu-MAb™ kits.

Shanghai Hua Gao Pharmaceutical Pellet Core Co.

On August 5, 2002, the Company completed an equity assignment contract to purchase the remaining 75% ownership of Shanghai Hua Gao Pharmaceutical Pellet Core Co. (SHGP). SHGP is now classified as a 100% foreign-owned company in the People's Republic of China and is approved by the Chinese Authorities to:

- manufacture, distribute and sell pharmaceutical products, and
- perform technical research and development services with respect to Altachem's products.

Facility

SHGP is located in a high-tech zone in Shanghai, China and leases two separate buildings, an office complex and manufacturing facility. The office complex is approx. 5,300 square feet and the manufacturing complex is approx. 26,000 square feet.

The facility meets GMP and SDA (Chinese State Drug Administration) standards.

Focus

SHGP and Altachem Pharma management are working diligently to build long-term contracts.

Market opportunity

As a result of China becoming a member of the World Trade Organization, several local Chinese facilities are being forced to close their doors due to their inability to meet the WTO's new quality standards. SHGP is exploring the contract manufacturing opportunities that have arisen from the closing of non-compliant manufacturing facilities for the local market as well as export.

What is Pellet Core?

Pellet cores are spherical particles usually less than 1 mm in diameter for use in the manufacturing of slow and controlled-release dosage forms. The drug is applied over the cores as a thin film and subsequently the medicated cores are coated with another film (polymers, waxes, etc.), which control the release activity of the drug.

Slow/controlled-release pharmaceutical drug production is rapidly developing as an important component of the Chinese pharmaceutical industry. The pharmaceutical material produced at the new SHGP plant will replace the need for imports, thereby enhancing the growth and development of China's slow/controlled-release pharmaceutical drug manufacturing industry. SHGP is the first manufacturer and supplier of this high-quality product in China. Phase I of the business plan calls for the manufacture and subsequent marketing of the pellet core product, and Phase II will see the development of new technologies in the area of modified release formulations.

Management Team

Warren Jackson, President, Chief Executive Officer and Director
Doug Jewell, Executive Vice President and Director [1]
Douglas Bachman, Vice President of Corporate Development
Jerry G. Miller, Ph.D., Vice President of Pre-clinical Affairs
Selvaraj S. Naicker, Ph.D., Senior Vice President of Drug Development
Thomas Woo, M.Sc., Vice President of Product Development
Warren Cabral, B.Comm, C.A., Chief Financial Officer

Scientific Advisory Board

Dr. Barbee Whitaker,
Senior Director, Standards & Certification for ABRA

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Research Associate, University of Alberta

Dr. Samuel Abraham,
Associate Director, Technology Development Office, BC Cancer Agency

Dr. Tony Antakly,
Chairman of the Scientific Review Committee of Danamedix Inc.

Dr. William J. Lown,
Emeritus professor, University of Alberta

Dr. Zhenjun Diwu,
Director of Chemistry, Molecular Devices Corporation

Board of Directors

Warren Jackson, Chairman
Doug Jewell [1]
Doug Walker [1,2,3]
Douglas Wayne Minion [1,2,3]
Melvin Torgerson
Dr. William C. Mackay [2,3]

Audit Committee 1, Compensation Committee 2, Corporate Governance Committee 3

Corporate and Shareholder Information

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Canada T5S 1G2

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Registrar and Transfer Agent
Computershare Trust Company of Canada
Calgary, Alberta

Auditors
Ernst & Young LLP
Edmonton, Alberta

Bankers
ATB Financial
Edmonton, Alberta
Laurentian Bank of Canada
Edmonton, Alberta

Legal Council
Fraser Milner Casgrain LLP
Edmonton, Alberta

Stock Exchange Listing
The Common Shares of the Company trade on the TSX Venture Exchange, Symbol AAF

Investor Relations
Roger Andrews
Tel. (780) 486-8331, ext. 331
Toll Free: 1-877-502-5939

Web Site
www.altachempharma.com

Annual General Meeting of Shareholders
Thursday October 30, 2003 2:00 P.M. (MDT)
Salon "A", Crowne Plaza Chateau Lacombe Hotel
Edmonton, Alberta

Consolidated Financial Statements

Altachem Pharma Ltd.

January 31, 2003 and 2002

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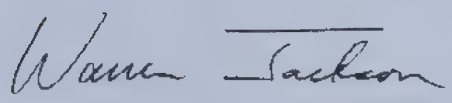
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the Corporation is responsible for the consolidated financial statements and all other information contained in this annual report. The consolidated financial statements have been prepared following Canadian generally accepted accounting principles. Management maintains systems of internal controls to provide reasonable assurance that its financial records are reliable and assets are safeguarded. The consolidated financial statements include amounts that are based on estimated and judgments made by management. Financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements.

The consolidated financial statements have been reviewed and approved by the Corporation's Board of Directors. The Board of Directors is responsible for overseeing management in the performance of its financial reporting and internal control responsibilities. The board has appointed an Audit Committee to review the consolidated financial statements with management and external auditors before the consolidated financial statements are presented to the Board of Directors for approval. The external auditors have full access to the Audit Committee.

The independent external auditors, Ernst & Young LLP, have been appointed by the shareholders to express their opinion on the consolidated financial statements of the Corporation.



Warren Jackson
President and Chief Executive Office

Warren Cabral, C.A.
Chief Financial Officer

Management Discussion and Analysis

This discussion and analysis of the results of operations should be read in conjunction with the audited consolidated financial statements and accompanying notes for the fiscal years ended January 31, 2003 and 2002. Certain information in this discussion and analysis of operations is by nature forward-looking and is subject to certain risks and uncertainties.

Overview

Altachem Pharma Ltd. ("Altachem" or the "Corporation") is committed to the development and commercialization of new pharmaceutical products to enrich and prolong the lives of people. Altachem is developing non-toxic therapeutic products and adjunctive therapies for the treatment of cancer and AIDS.

The Corporation has two proprietary drug development products; HB for the treatment of cancer; and ACP-HIP for the treatment of AIDS. HB is a non-toxic, small molecular weight compound isolated from parasitic fungi on bamboo. Chemically modified HB has demonstrated its ability to specifically kill cancer cells and tumors upon activation by red visible light and/or ultrasound. HB is in the preclinical stage of development. ACP-HIP is a low molecular weight protein isolated from the urine of pregnant women. ACP-HIP has demonstrated its ability to inhibit the proliferation of AIDS causing HIV as well as to induce Kaposi's sarcoma ("KS") cell death. In December 2002, the Corporation received approval from Health Canada to begin a phase I human clinical trial for ACP-HIP and is in the process of initiating this trial.

The Corporation also operates manufacturing facilities located in Edmonton, Alberta and Shanghai, China. These facilities are certified compliant with international recognized quality systems standards. Cash flows generated from the manufacturing facilities are to be used to offset a portion of the Corporation's operating costs.

Results of Operations

Altachem's operations have significantly changed during the past year. The Corporation's results from operations for the year ended January 31, 2003 were highlighted by; the closing of a private placement, the approval of a joint venture in Beijing, China, the completion of the purchase of 100% of the Shanghai, China manufacturing facility and the leasing of a drug development facility in Edmonton, Alberta.

In February 2002, the Corporation significantly strengthened its cash position by closing a private placement of 8,101,417 units at a price of $1.20 per unit, for aggregate gross proceeds of $9,721,700. In addition, 438,825 units were issued as consideration for consulting services provided in conjunction with the placement.

In July 2002, the Corporation received approval for the joint venture ("Beijing JV") with the Erdos Cashmere Group Co. Ltd. ("Erdos") which has been formed to finance and expedite the development of the Corporation's blood technologies. The joint venture required an initial cash contribution from the Corporation of U.S. $3,076,800 and from Erdos of U.S. $9,422,700. In addition, the Corporation granted a technology license to the joint venture as part of its initial capital contribution. At the end of January 2003, the Corporation had not fully completed the transfer of technology to the Beijing JV and the Beijing JV had not commenced preclinical development. On May 21, 2003, subsequent to the fiscal year end, Bejing Altachem Pharma Biotechnology Ltd. (formerly the Beijing JV) acquired Erdos' 49% interest. As a result, Beijing Altachem Pharma Biotechnology Ltd. became a wholly owned subsidiary of Altachem. With the subsequent change in structure to a wholly owned subsidiary and the transfer of technology not being fully completed by year end, the accounting treatment applied in the second and third quarters to record a deferred gain of $5,013,206 on the technology license granted to the joint venture has changed and Altachem has not recorded a deferred gain on the consolidated balance sheet at January 31, 2003.

In August 2002, the Corporation completed the purchase of 100% ownership in the Shanghai Hua Gao Pharmaceutical Pellet Core Company Ltd. ("SHGP"). From the date of purchase, August 5, 2002, Altachem's consolidated financial statements include all assets, liabilities, revenues and expenses of SHGP's operations.

It is important to note that Altachem's net consolidated loss includes significant non-cash items. These non-cash items include amortization and options issued as consideration for services. For the years ended January 31, 2003 and January 31, 2002, amortization was $1,380,534 and $630,992 respectively, and options issued for services was $520,000 and $nil respectively. Net consolidated loss for the year ended January 31, 2003 was $4,348,053 or $0.14 per share as compared to a consolidated loss of $2,360,175 or $0.11 per share for the year ended January 31, 2002. After adjusting for non-cash items, cash flows from operating activities for the year ended January 31, 2003 was a loss of $2,686,674 as compared to a loss of $1,401,376 for the year ended January 31, 2002.

Revenues

With the acquisition of the Shanghai facility, Altachem now generates revenue from three sources: contract manufacturing of diagnostic test kits; sales of Accu-MAb™ a whooping cough diagnostic test kit, and sales of pharmaceutical pellet core.

Total revenues for the year ended January 31, 2003 were $439,945 as compared to $478,482 for the year ended January 31, 2002. The Corporation's revenue from contract manufacturing decreased to $294,781 in 2003 as compared to $333,659 in 2002. This decrease in revenue reflects a reduction in orders received per the Corporation's exclusive manufacturing contract with Isodiagnostika. The Corporation's revenue from sales of Accu-MAb™ decreased slightly to $136,140 in 2003 as compared to $144,823 in 2002. However during 2003, the Corporation expanded its customer base for Accu-MAb™ to 65 customers from 53 in 2002. Royalties paid per the Accu-MAb™ acquisition agreement amounted to $13,770 in 2003 as compared to $5,654 in 2002. The Corporation's revenue from sales of pellet core was $9,062 for the year ended January 31, 2003. Prior to the Corporation's acquisition of 100% of the Shanghai manufacturing facility there were no sales of pellet core.

The direct costs associated with manufacturing are classified as materials, supplies and subcontracts expense. These costs fluctuate with the volume of manufacturing during the year. Materials, supplies and subcontracts expenses for the year ended January 31, 2003 were $287,557 as compared to $200,505 for the year ended January 31, 2002. The increase in this expense is related to a more complete allocation of costs and wages associated with manufacturing.

Expenses

General and administrative expenses for the year ended January 31, 2003 were $2,106,568 as compared to $1,047,767 for the year ended January 31, 2002. The increase in expenses is consistent with the continued growth of the Corporation which now includes the operations of the Shanghai facility. The components of general and administrative expenses that have increased include wages, consulting fees and travel costs. Wages have increased from: the addition of new members to the management team including the addition of a corporate finance team; wage increases for the existing management team; and the addition of 19 employees as a result of the acquisition of the Shanghai facility. Consulting fees have increased from: fees paid to new investor relations firms; fees paid to assess potential international business and financing strategies; and management fees paid associated with the formation and approval of the Beijing JV. As a result of the formation and approval of the Beijing JV and the purchase of 100% of the Shanghai facility, travel costs for the year have increased.

Research and development expenses for the year ended January 31, 2003 were $880,003 as compared to $784,012 for the year ended January 31, 2002. During the year, the Corporation leased a drug development laboratory to expedite and ensure the efficient development of Altachem's proprietary technologies. Prior to the leasing of this laboratory, Altachem contracted out the development of its technologies. Now the Corporation has the equipment and people to conduct its own development. The increase in expenses is consistent with the additional resources being focused towards the development and advancement of Altachem's proprietary technologies.

In 2002, new accounting rules came into effect on how to record stock options granted to employees and consultants. Stock options are not cash payments, but provide Altachem with an alternative form of compensation. Stock options assist with the effective management of cash resources and provide a source of cash when the options are exercised. These new rules were adopted in the first quarter financial statements. During the year ended January 31, 2003, the Corporation has issued stock

options to consultants, with exercise prices of $2.25 and $3.00 per share, and per the new accounting rules has recorded an expense of $520,000 in the consolidated financial statements. This expense represents an estimate of the fair value of the services provided by the consultants, but as described above, is not a payment of cash. When or if the stock options are exercised, the consultants will pay Altachem either $2.25 or $3.00 per share to exercise these options.

Other Items

Altachem's operations in China, the Beijing JV and SHGP, must be translated into Canadian dollars to prepare annual and quarterly financial statements. For accounting purposes, the Beijing JV and SHGP are treated different. The Beijing JV is treated as an integrated operation and as a result, any foreign exchange gain or loss is included in income. For the year ended January 31, 2003, a foreign exchange gain of $28,454 has been recorded on the statement of operations. SHGP is treated as a self-sustaining operation and as a result, any foreign exchange gain or loss is deferred and does not affect income. Foreign exchange gains or losses are included in a separate component of shareholders' equity that will increase or decrease each period depending upon whether there is a net exchange gain or loss, respectively. For the year ended January 31, 2003, a cumulative translation adjustment loss of $57,139 has been recorded on the balance sheet.

Liquidity and Capital Resources

At January 31, 2003, cash and cash equivalents was $6,956,830 as compared to $536,679 at January 31, 2002. The change in cash includes $10,048,550 received from the issuance of shares from the exercise of stock options and from the private placement. Included in the cash balance at January 31, 2003 is $4,664,060 from the proportionate consolidation of the Corporation's share of the Beijing JV's cash. As previously described, the Beijing JV was formed during the second quarter and Altachem contributed cash plus granted the joint venture a technology license to obtain a total of 51% ownership. As the technology transfer was not fully completed by year end, Altachem has consolidated cash from the Beijing JV on a 24.6% basis and not a 51% basis used in the previous quarter. This change explains the significant decrease in cash from the third quarter.

Based on current operating budgets, management believes that the capital resources of the Corporation should be sufficient to fund operations throughout the next twenty four months which includes the phase I clinical trial for ACP-HIP. Altachem's funding needs may vary as its drug development products move into and through human clinical trials. If the Corporation needs to raise additional capital as funding requirements change, it would seek such additional capital through equity financing, licensing arrangements or strategic partnerships.

Risks and Uncertainties

Altachem's proprietary technologies are in various stages of development and some technologies have not received regulatory approval to begin human clinical trials. It will be necessary for the Corporation to produce sufficient preclinical data in order to receive regulatory approval to begin human clinical trials. There is no assurance that regulatory approval will be received to begin human clinical trials.

For the proprietary technologies that have received regulatory approval to begin human clinical trials, future success will depend upon the ability of the Corporation to move the products through clinical trials, the effect and safety of these products, the timing and cost to receive regulatory approvals and the filing and maintaining patent claims.

The Corporation maintains clinical trial liability and product liability insurance; however, it is possible that this coverage may not provide full protection against all risks.

Altachem will continue to raise additional capital through the exercise of stock options and warrants, issuing new share capital through equity financing, licensing arrangements and/or strategic partnerships. The Corporation's ability to raise additional capital will depend upon the progress of moving its drug development products into and through human clinical trials and the strength of the equity markets, which are uncertain. There can be no assurance that additional capital will be available in the future.

AUDITORS' REPORT

To the Shareholders of
Altachem Pharma Ltd.

We have audited the consolidated balance sheets of **Altachem Pharma Ltd.** as at January 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at January 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Edmonton, Canada
May 21, 2003

CONSOLIDATED BALANCE SHEETS

As at January 31

	2003 $	2002 $
ASSETS		
Current		
Cash and cash equivalents	**6,956,830**	536,679
Marketable securities (market value $11,400; 2002 - $21,390)	**6,110**	21,390
Accounts receivable	**139,428**	108,552
Inventory	**39,591**	60,006
Prepaid expenses	**40,946**	3,677
	7,182,905	730,304
Loan receivable *[note 10]*		150,000
Long-term investments *[note 5]*		245,886
Intangible assets *[note 7]*	**2,025,232**	2,543,174
Capital assets *[notes 8 and 15]*	**1,215,905**	313,250
	10,424,042	3,982,614
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**203,230**	130,812
	203,230	130,812
Future income taxes *[note 11]*	**470,182**	788,130
	673,412	918,942
Commitments and contingencies *[note 12]*		
Shareholders' equity		
Share capital *[note 9]*	**19,243,240**	8,671,090
Contributed surplus *[note 4]*	**520,000**	
Cumulative translation adjustment	**(57,139)**	
Deficit	**(9,955,471)**	(5,607,418)
	9,750,630	3,063,672
	10,424,042	3,982,614

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended January 31

	2003 $	2002 $
REVENUE		
Manufacturing revenue *[note 15]*	**439,945**	478,482
Materials, supplies and subcontracts	**(287,557)**	(200,505)
Royalty payments	**(13,770)**	(5,654)
Gross margin	**138,618**	272,323
EXPENSES		
General and administrative *[note 10]*	**2,106,568**	1,047,767
Research and development	**880,003**	784,012
Amortization	**1,380,534**	630,992
Bank charges and interest	**3,190**	3,538
Options issued as consideration for services *[note 4]*	**520,000**	
	4,890,295	2,466,309
Loss before the undernoted	**(4,751,677)**	(2,193,986)
Other income (expenses):		
Interest income	**107,157**	25,742
Foreign exchange	**28,454**	
Write-down of marketable securities	**(15,280)**	(128,720)
Equity loss in SHGP *[note 5]*	**(34,655)**	(128,159)
Write-down of proprietary rights *[note 7]*		(107,337)
Gain on sale of marketable securities		6,570
	85,676	(331,904)
Net loss before income taxes	**(4,666,001)**	(2,525,890)
Future income tax recovery *[note 11]*	**317,948**	165,715
Net loss	**(4,348,053)**	(2,360,175)
Deficit, beginning of year	**(5,607,418)**	(3,247,243)
Deficit, end of year	**(9,955,471)**	(5,607,418)
Basic and diluted loss per share	**($0.14)**	($0.11)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended January 31

	2003 $	2002 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**(4,348,053)**	(2,360,175)
Items that do not involve cash:		
Amortization	**1,380,534**	630,992
Gain on sale of marketable securities		(6,570)
Future income tax recovery	**(317,948)**	(165,715)
Write-down of marketable securities	**15,280**	128,720
Options issued as consideration for services *[note 4]*	**520,000**	
Equity loss in SHGP *[note 5]*	**34,655**	128,159
Write-down of proprietary rights *[note 7]*		107,337
Shares issued as consideration for services *[note 9]*		88,000
Changes in non-cash working capital items relating to operating activities *[note 13]*	**28,858**	47,876
	(2,686,674)	(1,401,376)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital *[note 9]*	**10,048,550**	1,097,133
	10,048,550	1,097,133
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	**(428,525)**	(32,922)
Purchase of Sonolight Pharmaceuticals Corp. *[note 3]*		(72,977)
Purchase of SHGP *[note 5]*	**(606,061)**	(192,183)
Proceeds on disposal of marketable securities		8,550
Purchase of Accu-MAb license		(81,924)
Repayment of loan receivable *[note 10]*	**150,000**	
	(884,586)	(371,456)
Effect of exchange rate changes on cash	**(57,139)**	
Increase in cash and cash equivalents	**6,420,151**	(675,699)
Cash and cash equivalents, beginning of year	**536,679**	1,212,378
Cash and cash equivalents, end of year	**6,956,830**	536,679
Cash and cash equivalents consist of:		
Cash	**545,522**	536,679
Cash equivalents	**6,411,308**	
	6,956,830	536,679

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2003 and 2002

1. DESCRIPTION OF BUSINESS

Altachem Pharma Ltd., ("the Company") is incorporated under the Business Corporations Act (Alberta). The Company's principal business activity is the research, development, manufacturing, and distribution of pharmaceutical products. The Company is publicly traded on the TSX Venture Exchange under the symbol "AAF".

The Company has expended significant resources in the research and development of pharmaceutical products since its inception. Its ability to successfully complete its research and development programs and commercialize its technologies is dependent on obtaining the necessary financing to conduct clinical trials and receiving regulatory approvals for its products. It is not possible at this time to predict with assurance the outcome of these activities.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements have been prepared following Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore the preparation of these financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may vary from those estimated and the differences could be material. Such estimates and assumptions have been made using careful judgments, which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized below:

Principles of consolidation

These consolidated financial statements include the accounts of the Company, its 24.6% proportionate consolidated interest in the Beijing Erdos Altachem Pharma Ltd. Joint Venture [*see Note 6*] and its wholly owned subsidiaries:

790563 Alberta Ltd.
Altachem Pharma (Barbados) Inc.
Altachem Pharma Inc.
Danamedix Inc.
Shanghai Hua Gao Pharmaceutical Pellet Core Ltd. *[see Note 5]*
Sonolight Pharmaceuticals Corp.
Steroidogenesis Inhibitors Canada Inc.

All significant intercompany transactions and balances are eliminated in the preparation of these consolidated financial statements.

Cash equivalents

Cash equivalents are recorded at cost, which approximates market value, and include short-term highly liquid investments with maturities at the date purchased of less than three months.

Inventory

Inventory is valued at the lower of cost, computed on a first-in, first-out basis, and estimated net realizable value.

Marketable securities

Marketable securities are carried at the lower of cost and market value.

Long-term investments

Long-term investments over which the company is considered to exercise significant influence are accounted for using the equity method. Other long-term investments are recorded at cost. In the event a decline in the value of long-term investments is considered to be other than temporary, the investment is written down to its estimated realizable value.

Intangible assets

Intangible assets include proprietary rights, intellectual property and patent rights which have been acquired from third parties. Intangible assets are recorded at cost less accumulated amortization. Following acquisition, the Company evaluates the prospective commercialization of the acquired intangible assets. Depending on the results of the evaluation, the Company generally commences amortization of the assets over a period not to exceed five years.

Proprietary rights and intellectual property

The cost of acquired intellectual property is amortized on a straight-line basis over three years. The cost of the license rights to market and distribute the product Anticort™ is being amortized on a straight-line basis over a three year period. The cost of acquired license rights to produce and distribute the Accu-MAb™ product is being amortized on a straight-line basis over five years.

The Company's management evaluates the recoverability of the carrying cost of proprietary rights and intellectual property annually, based on the expected utilization of the underlying technology and an assessment as to whether or not estimated future net cash flows exceed the carrying value of the proprietary rights and intellectual property. If the rights and intellectual property are not considered to be fully recoverable, a provision is recognized for the unrecoverable amount.

Patent rights

Patent rights are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over a maximum period of five years from the time of acquisition. The Company's management evaluates the recoverability of the cost of such rights annually, based on the expected utilization of the underlying technology and an assessment as to whether or not estimated future net cash flows exceed the carrying value of the patent rights. If the rights are not considered to be fully recoverable, a provision is recognized for the unrecoverable amount.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded using the following methods and annual rates:

	Basis	Rate
Computer hardware and software	Declining balance	30%
Furniture and fixtures	Declining balance	30%
Office equipment	Declining balance	30%
Manufacturing equipment	Declining balance	30%
Leasehold improvements	Straight-line	Lease term

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2003 and 2002

Revenue recognition

The Company recognizes revenue from product sales upon shipment. Revenue under a contract-manufacturing agreement is recognized when the contract services are provided.

Foreign currency translation

The Joint Venture – Beijing Erdos Altachem Pharma Ltd. (the "Beijing JV") is considered financially and operationally integrated and is translated using the temporal method. The monetary assets of the Beijing JV are translated into Canadian dollars at rates of exchange in effect at the end of the year. Revenue and expenses are translated at average rates of exchange during the year. Non-monetary assets and liabilities of Beijing JV are translated at historical rates of exchange. Exchange gains and losses arising on translation are included in earnings.

The 100% owned subsidiary Shanghai Hua Gao Pharmaceutical Pellet Core Ltd. ("SHGP") has been classified as a self-sustaining foreign operation. SHGP is financially and operationally independent of the Company such that the exposure to exchange rate fluctuations is limited to the Company's net investment. The current rate method of foreign currency translation has been used because it best reflects this foreign operation in Canadian dollars. As required by CICA Handbook section 1650, the exchange gains and losses arising from the translation of the financial statements of SHGP have been deferred and included in a separate component of shareholders' equity called 'Cumulative Translation Adjustment.'

Research and development

Research and development costs are expensed as incurred, except that development costs meeting specified criteria under Canadian generally accepted accounting principles are deferred and amortized over the estimated useful life of the associated pharmaceutical product, not exceeding ten years, once commercialization is complete. The Company has not deferred any such development costs to date.

Stock-based compensation

Effective February 1, 2002 the Company adopted the new CICA standard for stock-based compensation and other stock-based payments. As permitted by this standard, the Company has applied this change prospectively for new awards granted on or after February 1, 2002. The Company has chosen to recognize no compensation expense when stock options are granted to employees and directors under stock option plans with no cash or equity settlement features. However, direct awards of shares to employees and non-employees, and stock option awards granted to non-employees, are accounted for in accordance with the fair value method of accounting for stock-based compensation.

Basic and diluted loss per share

Basic loss per share (EPS) is calculated using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the treasury-stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later). Proceeds from exercise are assumed to be used to purchase common shares at the average market price during the period. Incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted EPS computation.

Basic loss per share has been calculated using the weighted-average number of common shares outstanding during the year (2003 – 31,872,133; 2002 – 21,575,413). The effect of the exercise of warrants and additional stock options is not dilutive.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded for the portion of the future tax assets for which the realization of any value is not more likely than not to occur.

3. PURCHASE OF SONOLIGHT PHARMACEUTICALS CORP.

Effective August 1, 2001, the Company acquired 100% of Sonolight Pharmaceuticals Corp. ("Sonolight"). Sonolight is an Alberta based company focused on the application of next-generation technologies to manage neoplastic diseases with currently unmet treatment needs, such as breast cancer, prostate cancer and gastro-intestinal cancer. Consideration for the acquisition consisted of 2,344,000 common shares of the Company at a fair value of $1,450,000 and cash of $72,977. Of these shares, 1,406,400 were subject to a one-year hold period ended August 1, 2002 and 937,600 are releasable equally over a three-year period ending August 1, 2004. The fair value of the shares was determined based on the average quoted market price of the Company's common shares for the three days immediately before and immediately after the acquisition. The fair value of the shares subject to the hold period ending August 1, 2004 was adjusted by a discount from quoted market prices of 12%.

The acquisition was accounted for using the purchase method and the results of operations from August 1, 2001 are included in these financial statements.The fair value of net assets acquired is summarized as follows:

	$
Intellectual property - hypocrellin based technology, licenses and patent costs	**2,476,822**
Future income taxes	**(953,845)**
	1,522,977

Consideration for the purchase was comprised of:	
Cash	**72,977**
Shares issued (2,344,000 common shares)	**1,450,000**
	1,522,977

4. STOCK-BASED COMPENSATION

The following pro forma financial information presents the net loss and net loss per common share had the Company elected to recognize stock-based compensation using a fair value methodology. The pro forma disclosure omits the effect of awards granted before the years beginning February 1, 2002.

	For the year ended January 31, 2003 $
Net loss for the period as reported	4,348,053
Compensation expense	709,265
Pro forma net loss	5,057,318
Pro forma basic and diluted loss per share	(0.16)

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted to employees during year ended January 31, 2003. The following assumptions were used for the three month period ended January 31, 2003:

Dividend Yield	0.00%
Volatility	76.9%
Risk-free Interest Rate	3.79%
Expected Life (Years)	2.68

The weighted average fair value of stock options granted to employees was $1.21 for the year ended January 31, 2003.

During the year, the Company granted 1,285,500 stock options, as per the Company's Stock Option Plan. Of these stock options, 585,500 options were granted to employees; 400,000 and 300,000 options with exercise prices of $3.00 and $2.25 respectively were granted in exchange for consulting services. The fair value of the 300,000 vested options of $464,000 was recognized as an expense and credited to contributed surplus. The 400,000 options vest over time, and at January 31, 2003 200,000 had vested. The fair value of the 200,000 vested options, $56,000, has been recognized as an expense and credited to contributed surplus. For the year ended January 31, 2003 $520,000 was credited to contributed surplus.

5. LONG-TERM INVESTMENTS

	at January 31, 2002 $
Investment in Shanghai Hua Gao Pharmaceutical Pellet Core Company Ltd.	374,045
Less: accumulated equity losses	(128,159)
	245,886

On December 4, 1999, the Company entered into a venture with Jianguan Industrial and Commercial Company ("JICC") to form the Shanghai Hua Gao Pharmaceutical Pellet Core Company Ltd. ("SHGP"), a limited liability corporation incorporated in the Peoples Republic of China. The corporation's purpose is to manufacture and commercialize pellet core product. The Company originally obtained a 25% interest in SHGP and JICC obtained a 75% interest.

During the year ended January 31, 2003, the Company entered into a contract to purchase the remaining 75% ownership of SHGP for consideration of 4,500,000 Rmb ($857,666). On August 5, 2002, the Company completed the purchase and holds 100% ownership of SHGP. The results of SHGP's operations have been included in the consolidated financial statements since that date.

The aggregate purchase price for 100% ownership of SHGP was $1,068,897. This amount represents the net investment in SHGP from December 4, 1999 until August 5, 2002 comprised of $1,231,711 in cash less $162,814 in accumulated equity losses ($128,159 at January 31, 2002 and $34,655 for the period February 1, 2002 to August 4, 2002.)

The following table summarizes the fair value of the acquired assets and liabilities at the date of acquisition.

	at August 5, 2002
	$
Current assets	**268,824**
Capital assets	**707,505**
Intangible assets - business license	**105,618**
Total assets acquired	**1,081,947**
Current liabilities	**(13,050)**
Net assets acquired	**1,068,897**

Included in the current assets acquired was $251,605 of cash.

6. JOINT VENTURE – BEIJING ERDOS ALTACHEM PHARMA LTD.

On June 24, 2002, the Company announced that the proposed Beijing Erdos Altachem Pharma Ltd. (the "Beijing JV") joint venture to be located in Beijing, China between Altachem Pharma Ltd. and Erdos Cashmere Group Co. Ltd. ("Erdos") had received all the necessary approvals from the Chinese government regulatory authorities. The Beijing JV's purpose is to develop drug platform technologies to eliminate pathogens in blood and blood products.

The Company paid cash of U.S. $3,076,800 and Erdos paid cash of U.S. $9,422,700 to the Beijing JV to fund start-up and preclinical costs. The joint venture agreement required the Company to exclusively license certain of its technology to the Beijing JV and provide other specified scientific and development assistance. As at January 31, 2003, the Company had not fully completed the transfer of technology to the Beijing JV and the joint venture had not yet begun preclinical development activity.

The following table summarizes the Company's share of the Beijing JV assets, liabilities, income, expenses and cash flows included in these financial statements.

	at January 31, 2003
	$
Assets	
Current	
Cash and cash equivalents	**4,664,060**
Other receivable	**23,711**
Due from related parties	**5,354**
	4,703,125
Capital assets (net)	**3,601**
	4,706,726

Liabilities	
Current	
Accounts payable and accrued liabilities	**3,063**
Due to related parties	**8,234**
Taxes payable	**677**
	11,974

Income, expense and cash flows for the period June 6, 2002 to January 31, 2003

	$
Expenses	
General and administration	**48,940**
Amortization	**236**
Other income	
Interest income	**(37,136)**
Foreign exchange gains	**(471)**
Net loss	**11,569**
Cash flows used by operating activities	**39,006**
Cash flows used in investing activities	**3,836**

On May 21, 2003, Beijing Altachem Pharma Biotechnology Ltd. (formerly the Beijing JV) acquired Erdos Cashmere Group Inc.'s shares of the company for cash consideration of approximately $12,682,000 (77,804,027 Chinese Rmb). As a result, Beijing Altachem Pharma Biotechnology Ltd. is a wholly owned subsidiary of the Company effective May 21, 2003.

7. INTANGIBLE ASSETS

	at January 31, 2003		at January 31, 2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	$	$	$	$
Proprietary rights				
Hypocrellin based technology and licenses	**2,476,822**	**1,245,152**	2,476,822	419,545
Anticort™ license	**419,887**	**174,955**	419,887	34,991
Accu-MAb™ license	**81,924**	**27,308**	81,924	10,923
Bionex™ technology and license	**369,600**	**106,935**		
CDK technology	**154,000**	**25,666**		
Patent rights				
ACP-HIP	**75,000**	**60,000**	75,000	45,000
Retnoids	**230,000**	**230,000**	230,000	230,000
License				
Business license - China	**105,618**	**17,603**		
	3,912,851	**1,887,619**	3,283,633	740,459
	2,025,232		2,543,174	

Proprietary rights - Hypocrellin based technology and licenses

The Company's subsidiary, Sonolight, holds the exclusive worldwide license to develop, commercialize and exploit several proprietary inventions involving a class of sonosensitizers and their use in cancer and non-cancer therapies. The license agreement is for a term of 25 years. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company is amortizing this asset over a three-year period that commenced August 1, 2001.

Proprietary rights – Anticort™ license

The Company owns the exclusive renewable rights to market and distribute the product Anticort™ in Canada for a period of ten years commencing upon approval of the drug by Health Canada ("HPB"). The Company also has an option to acquire the exclusive rights for those countries in the British Commonwealth, except for England, New Zealand, Australia, and Brunei, for a period of one year from the date drug approval is received from the HPB. The Company is amortizing this asset over a three-year period that commenced on November 1, 2001.

Proprietary rights - Accu-MAb™ license

On February 27, 2001 the Company acquired the inventory and associated rights to produce and distribute a diagnostic test kit for the detection of whooping cough ("Accu-MAb.") The term of the license to produce and distribute the product is for a period of ten years with a ten-year renewal option. The Company is amortizing the license rights on a straight-line basis over five years.

Proprietary rights – Bionex™ technology and license

The Company owns the exclusive worldwide rights to develop manufacture and sell Bionex™, a compound being designed to clean blood products from contamination by a number of viruses, including the HIV/AIDS virus. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. During the year, 160,000 common shares were issued pursuant to the technology agreement. These shares have been recorded at a value that represents the closing price of the common shares on the date the shares were issued. The agreement requires royalty payments upon successful sales and marketing of products developed using the technology. The Company is amortizing this asset over a three-year period that commenced March 20, 2002.

Proprietary rights – CDK technology

The Company owns the worldwide rights to develop, manufacture and sell the CDK technology, a novel immunomodulator with anti-cancer properties. As consideration for its acquisition of the technology, the Company must issue 400,000 common shares as certain milestones outlined in the technology purchase agreement are met. During the year 100,000 shares were issued. These shares have been recorded at a value that represents the closing price of the common shares on the date the shares were issued. The Company is amortizing this asset over a three-year period, which commenced on August 1, 2002.

Patent rights – ACP-HIP

The Company has the entire rights to the worldwide patent rights over compounds with anti-Kaposi's Sarcoma ("KS") and HIV activity described as the ACP-HIP molecule, to make, have made, use, lease, sell, import and export technology products and processes and practice the technology processes. The Company must issue 110,000 common shares as certain milestones outlined in the technology development agreement are met. The Company is amortizing this intangible asset on a straight-line basis over five years.

Patent rights - Retnoids

The Company holds patent rights to two molecules that inhibit AIDS-KS. During the year ended January 31, 2002, the Company evaluated the recoverability of the patent rights based on its future plans for commercial development of the technology and determined that a provision of $107,337 was required to write-down the carrying value of the rights to nil.

Business license – China

The Company holds a business license issued by State Administration for Industry and Commerce of the People's Republic of China *[see note 5.]* The Company is amortizing this asset over a three-year period, which commenced on August 6, 2002.

8. CAPITAL ASSETS

	at January 31, 2003		at January 31, 2002	
	Cost	**Accumulated Amortization**	**Cost**	**Accumulated Amortization**
	$	$	$	$
Computer hardware and software	**96,042**	**40,460**	49,809	26,646
Furniture and fixtures	**62,719**	**38,440**	57,164	29,225
Office equipment	**59,378**	**31,567**	42,708	23,706
Manufacturing equipment	**1,297,205**	**304,030**	172,019	90,564
Leasehold improvements	**326,431**	**211,373**	326,431	164,740
	1,841,775	**625,870**	648,131	334,881
Net book value	**1,215,905**		313,250	

9. SHARE CAPITAL

	Number of shares	Amount $
Authorized		
Unlimited number of common shares without nominal or par value		
Unlimited number of First Preferred shares		
Unlimited number of Second Preferred shares		
The First and Second Preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.		
Issued:		
Common shares		
At January 31, 2001	**22,319,025**	**6,035,957**
Exercise of stock options	**55,000**	**16,500**
Exercise of warrants	**1,375,973**	**880,623**
Private placements for cash	**133,340**	**200,010**
Shares issued as consideration for services	**115,000**	**88,000**
Shares issued for the acquisition of Sonolight	**2,344,000**	**1,450,000**
At January 31, 2002	**26,342,338**	**8,671,090**
Exercise of stock options	**473,000**	**326,850**
Private placement for cash	**8,101,417**	**9,721,700**
Shares issued as consideration for private placement services	**438,825**	
Shares issued for meeting milestone criteria in the Bionex Technology Agreement	**160,000**	**369,600**
Shares issued for meeting milestone criteria in the CDK Technology Agreement	**100,000**	**154,000**
At January 31, 2003	**35,615,580**	**19,243,240**

Common shares and warrants

On February 28, 2002, the Company closed a private placement of 8,101,417 units at a price of $1.20 per unit, for aggregate gross proceeds of $9,721,700. In addition, 438,825 units were issued as consideration for consulting services provided for the placement. Each unit consists of one common share of the Company and one warrant, expiring August 29, 2003. Each warrant entitles the holders thereof to purchase one common share of the Company at a price of $1.55, if the warrant is exercised within 12 months from the date of the closing of this placement or $1.80, if the warrant is exercised after 12 months but before 18 months from the date of the closing of this placement. The warrants are non-transferable. The common shares issued had a hold period of 12 months from the date of closing, which expired on February 28, 2003. Any common shares issued upon exercise of the warrant component of the units also have a hold period of 12 months from the date of closing, which expired on February 28, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2003 and 2002

Stock options

During the year, the Company granted 1,285,500 stock options, as per the Company's Stock Option Plan. Of these stock options, 593,000 options were granted to employees and 300,000 options with an exercise price of $2.25 were granted in exchange for consulting services. A further 400,000 options with an exercise price of $3.00 were granted in exchange for consulting services. The 400,000 options vest over time, and at January 31, 2003 200,000 had vested.

The following options to purchase common shares were outstanding as at January 31, 2003.

	Options Outstanding		Options Exercisable
Exercise Price	Number Outstanding	Weighted Average Remaining Life	Number Exercisable
$0.30	150,000	1.87 years	150,000
$0.72	50,000	0.16 years	50,000
$0.80	100,000	3.85 years	100,000
$0.85	60,000	0.80 years	60,000
$0.90	400,000	3.88 years	400,000
$1.28	200,000	0.55 years	200,000
$1.45	1,085,000	2.31 years	1,085,000
$2.25	885,500	4.28 years	850,00
$3.00	400,000	0.62 years	200,000
	3,330,500	2.69 years	3,095,000

The following schedule details the warrants and stock options granted, exercised and expired:

	Shares issuable on exercise of			
	Warrants		Stock Options	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance January 31, 2002	266,680	$1.50	2,535,000	$1.09
Granted	8,540,242	$1.55	1,285,500	$2.48
Exercised	-	-	(473,000)	$0.69
Expired	(266,680)	$1.50	(17,000)	$1.45
Balance January 31, 2003	8,540,242	$1.55	3,330,500	$1.68

The Company's outstanding warrants are exercisable at $1.55 per share until February 28, 2003, thereafter exercisable at $1.80 per share, expiring August 29, 2003.

The Company has reserved 8,540,242 shares for the issue of warrants related to private placements.

Escrowed shares

As at January 31, 2003, the Company's transfer agent held 3,017,887 (2002 – 3,017,887) common shares pursuant to a performance escrow agreement. These shares can only be released upon the Company achieving certain cash flow milestones. Any shares remaining under the agreement at December 16, 2003 shall be cancelled by the escrow agent at any time up to six months subsequent to this date. The TSX Venture Exchange has issued a bulletin pursuant to Canadian Securities Administrators Notice 46-302 under which the exchange will permit release terms of existing performance escrow agreements to be amended.

In addition, 625,067 common shares issued in the acquisition of Sonolight are subject to hold periods expiring on August 1, 2003 and August 1, 2004.

10. RELATED PARTY TRANSACTIONS

During the year ended January 31, 2003, the Company incurred and paid $80,000 (2002 – $84,461) in rent and $200,000 (2002 – NIL) in management fees to a company controlled by an officer/director of the Company. These transactions are recorded at the amount established and agreed to by the parties.

The Company had also previously advanced funds to a corporation controlled by an officer/director of the Company. The balance outstanding at January 31, 2002 was repaid in full during the 2003 year.

11. INCOME TAXES

Details of the components of income taxes are as follows:

	2003	2002
	$	$
Loss before recovery of income taxes	**(4,666,001)**	(2,525,890)
Basic income tax rates	**38.9%**	38.6%
Computed income tax recovery	**(1,815,074)**	(974,993)
Adjustment in income taxes resulting from:		
Unrecorded potential tax benefits of current period losses	**1,171,138**	807,973
Fair value of stock options granted	**202,956**	
Non-deductible and other expenses	**123,032**	1,305
Income tax recovery - future income taxes	**(317,948)**	(165,715)

The Company's recognized future tax liability is comprised of acquired intellectual property carried at an amount for accounting purposes that exceeds the related tax value (2003 - $470,182; 2002 - $788,130).

The Company and its subsidiaries have non-capital losses for income tax purposes of approximately $7,282,000 at January 31, 2003 (2002 - $4,406,000) that may be applied against future taxable income. Non-capital losses and deductible temporary differences of approximately $9,012,000 have not been recognized for accounting purposes. The non-capital losses available for carryforward must be claimed in years ending no later than:

	$
2004	**208,000**
2005	**276,000**
2006	**203,000**
2007	**918,000**
2008	**1,020,000**
2009	**1,828,000**
2010	**2,829,000**
	7,282,000

12. COMMITMENTS AND CONTINGENCIES

The Company is committed to lease payments, including estimated operating costs, for certain of its business premises as follows:

	$
2004	**382,257**
2005	**433,049**
2006	**359,049**
2007	**277,049**
2008	**277,049**
Thereafter	**2,608,880**
	4,337,333

The Company can cancel one of its leases at any time. Assuming the Company canceled this lease in the next fiscal year the commitments would be; $367,257 for 2004, $156,000 for 2005, $82,000 for 2006 and Nil thereafter.

The Company has commitments to fund various research and development activities in the normal course of its business. Subject to successful completion of contractual milestones the Company is committed to $192,800 of research and development expenditures.

As a result of the acquisition of the Erdos interest in the Beijing JV *[see note 6]*, the Company is obligated to inject additional capital of US $9,422,700 in the form of either cash, equipment, technology or combination thereof, into Beijing Altachem Pharma Biotechnology Ltd. or otherwise apply to the Chinese Government regulatory authorities for a reduction of the registered capital of Beijing Altachem Pharma Biotechnology Ltd.

13. CHANGES IN NON-CASH WORKING CAPITAL ITEMS RELATING TO OPERATING ACTIVITIES

	2003	**2002**
	$	$
Accounts receivable	**(24,055)**	(58,225)
Inventory	**30,814**	15,091
Prepaid expenses	**(37,269)**	
Accounts payable and accrued liabilities	**59,368**	91,010
	28,858	47,876

14. FINANCIAL INSTRUMENTS AND CREDIT RISK MANAGEMENT

Financial instruments recognized in the balance sheet consist of cash and cash equivalents, marketable securities, accounts receivable, loan receivable and accounts payable and accrued liabilities.

A significant portion of the Company's manufacturing revenue is attributable to one customer, which accounted for approximately 67% (2002 - 61%) of the Company's accounts receivable. Furthermore, a significant number of the Company's customers are widely dispersed throughout North America and operate principally in the healthcare industry. The Company does not obtain collateral or other security to support accounts receivable.

15. SEGMENT DISCLOSURES

The Company is managed as one reportable business segment; therefore segmented information is not presented. Revenues and capital assets by geographic segment are presented below.

Revenues by geographic area

	Years ended January 31,	
	2003	**2002**
	$	**$**
Canada	**308,579**	342,348
United States	**114,783**	124,547
Other	**16,583**	11,587
	439,945	478,482

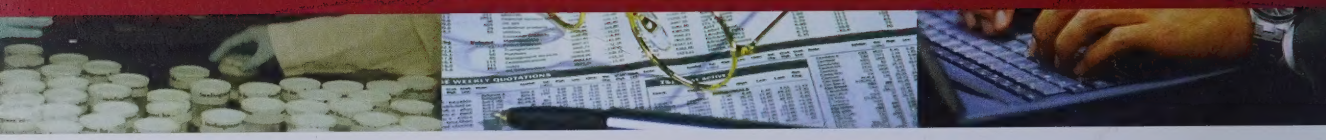
Revenues are attributed to countries based on location of customers.

Capital assets by geographic area

	As at January 31,	
	2003	**2002**
	$	**$**
Canada	**578,839**	313,250
People's Republic of China	**637,066**	
	1,215,905	313,250

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.



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